

10-Q 1 cmw2369.htm QUARTERLY REPORT

SEC OF TAXATION

EXHIBIT NO. 5DATE 1-24-07BILL NO. SB-242

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark one)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-7724

Snap-on Incorporated

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

39-0622040
(I.R.S. Employer Identification No.)

2801 80th Street, Kenosha, Wisconsin
(Address of principal executive offices)

53143
(Zip code)

(262) 656-5200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Class	Outstanding at October 13, 2006
Common Stock, \$1 par value	58,376,921 shares

TABLE OF CONTENTS

	<u>Page</u>
Part I: Financial Information	
Item 1. Financial Statements	
Consolidated Statements of Earnings - Three and Nine Months Ended September 30, 2006, and October 1, 2005	3
Consolidated Balance Sheets - September 30, 2006, and December 31, 2005	4-5
Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2006, and October 1, 2005	6
Notes to Consolidated Financial Statements	7-26
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	27-43
Item 3. Quantitative and Qualitative Disclosures About Market Risk	44-45
Item 4. Controls and Procedures	45
Part II: Other Information	
Item 1. Legal Proceedings	46
Item	
1A. Risk Factors	46
Changes in Securities, Use of Proceeds and Issuer Purchases of Equity	
Item 2. Securities	47
Item 5. Other Information	48
Item 6. Exhibits	49
Signatures	50
Exhibit Index	51

SNAP-ON INCORPORATED
CONSOLIDATED STATEMENTS OF EARNINGS
(Amounts in millions, except per share data)
(Unaudited)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September</u>	<u>October 1,</u>	<u>September</u>	<u>October 1,</u>
	<u>30,</u>	<u>2005</u>	<u>30,</u>	<u>2005</u>
	<u>2006</u>		<u>2006</u>	<u>2005</u>
Net sales	\$ 599.5	\$ 554.1	\$ 1,817.4	\$ 1,745.2
Cost of goods sold	(339.3)	(306.9)	(1,015.9)	(972.5)

<u>Gross profit</u>	260.2	247.2	801.5	772.7
Financial services revenue	11.3	13.1	34.2	43.4
Financial services expenses	(8.3)	(9.5)	(26.2)	(30.5)
Operating income from financial services	3.0	3.6	8.0	12.9
Operating expenses:				
Selling, general and administrative	(217.0)	(208.0)	(665.8)	(661.2)
Litigation settlement	--	--	(38.0)	--
Total operating expenses	(217.0)	(208.0)	(703.8)	(661.2)
Operating earnings	46.2	42.8	105.7	124.4
Interest expense	(4.5)	(5.6)	(13.6)	(17.1)
Other income (expense) - net	1.3	(0.5)	0.4	(2.2)
Earnings before income taxes	43.0	36.7	92.5	105.1
<u>Income tax expense</u>	(14.8)	(15.7)	(30.4)	(39.6)
Net earnings	\$ 28.2	\$ 21.0	\$ 62.1	\$ 65.5
Earnings per share:				
Basic	\$ 0.48	\$ 0.36	\$ 1.07	\$ 1.13
Diluted	\$ 0.48	\$ 0.36	\$ 1.05	\$ 1.12
Weighted-average shares outstanding:				
Basic	58.2	57.9	58.2	57.8
Effect of dilutive options	0.6	0.7	0.9	0.6
Diluted	58.8	58.6	59.1	58.4
Dividends declared per common share	\$ 0.27	\$ 0.25	\$ 0.81	\$ 1.00

See notes to Consolidated Financial Statements

SNAP-ON INCORPORATED
CONSOLIDATED BALANCE SHEETS
(Amounts in millions, except share data)
(Unaudited)

September 30, 2006	December 31, 2005
<u> </u>	<u> </u>

Assets
Current assets

Cash and cash equivalents	\$ 246.0	\$ 170.4
Accounts receivable - net of allowances	502.4	485.9
Inventories	312.6	283.2
Deferred income tax benefits	81.4	76.3
Prepaid expenses and other assets	69.4	57.1
Total current assets	1,211.8	1,072.9
<u>Property and equipment</u>		
Land	23.7	23.4
Buildings and improvements	231.8	229.2
Machinery and equipment	531.1	556.1
	786.6	808.7
Accumulated depreciation and amortization	(506.7)	(513.2)
Property and equipment - net	279.9	295.5
Deferred income tax benefits	66.8	57.8
Goodwill	419.6	398.3
Other intangibles - net	65.2	64.0
Pension assets	20.7	20.6
Other assets	105.5	99.3
Total assets	\$ 2,169.5	\$ 2,008.4

See notes to Consolidated Financial Statements

4

SNAP-ON INCORPORATED
CONSOLIDATED BALANCE SHEETS
(Amounts in millions, except share data)
(Unaudited)

	September 30, 2006	December 31, 2005
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 168.0	\$ 135.4
Notes payable and current maturities of long-term debt	17.7	24.8
Accrued benefits	32.7	35.4
Accrued compensation	75.4	62.2
Franchisee deposits	43.3	44.4
Deferred subscription revenue	19.0	26.6
Income taxes	36.5	33.1
Accrued litigation settlement	38.0	--

Other accrued liabilities	169.4	144.2
Total current liabilities	600.0	506.1
Long-term debt	198.1	201.7
Deferred income taxes	73.1	75.3
Retiree health care benefits	89.3	90.8
Pension liabilities	107.1	92.7
Other long-term liabilities	70.5	79.6
Total liabilities	1,138.1	1,046.2
Shareholders' equity		
Preferred stock (authorized 15,000,000 shares of \$1 par value; none outstanding)	--	--
Common stock (authorized 250,000,000 shares of \$1 par value; issued 67,074,834 and 67,049,257 shares)	67.1	67.0
Additional paid-in capital	120.8	113.3
Retained earnings	1,158.2	1,143.8
Accumulated other comprehensive income (loss)	(8.4)	(56.6)
Grantor Stock Trust at fair market value (849,248 and 3,204,308 shares)	(37.8)	(120.3)
Treasury stock at cost (7,948,060 and 5,886,864 shares)	(268.5)	(185.0)
Total shareholders' equity	1,031.4	962.2
Total liabilities and shareholders' equity	\$ 2,169.5	\$ 2,008.4

See notes to Consolidated Financial Statements

SNAP-ON INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in millions)
(Unaudited)

	Nine Months Ended	
	September 30, 2006	October 1, 2005
Operating activities:		
Net earnings	\$ 62.1	\$ 65.5
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	35.4	37.3
Amortization of other intangibles	1.6	2.3
Stock-based compensation expense	11.7	--
Deferred income tax provision (benefit)	(18.1)	10.6
Gain on sale of assets	(0.3)	(1.4)
Gain on mark to market for cash flow hedges	(0.2)	(0.4)

Changes in operating assets and liabilities:		
(Increase) decrease in receivables	(1.3)	10.0
(Increase) decrease in inventories	(19.2)	(2.4)
(Increase) decrease in prepaid and other assets	(5.4)	27.4
Increase (decrease) in accounts payable	28.8	(51.3)
Increase (decrease) in accruals and other liabilities	55.8	19.1
	<hr/>	<hr/>
Net cash provided by operating activities	150.9	116.7
Investing activities:		
Capital expenditures	(31.5)	(27.8)
Proceeds from disposal of property and equipment	11.2	7.4
	<hr/>	<hr/>
Net cash used in investing activities	(20.3)	(20.4)
Financing activities:		
Net decrease in short-term borrowings	(8.4)	(19.1)
Purchase of treasury stock	(83.5)	(17.6)
Proceeds from stock purchase and option plans	74.3	19.4
Excess tax benefits from stock-based compensation	8.8	--
Cash dividends paid	(47.7)	(43.3)
	<hr/>	<hr/>
Net cash used in financing activities	(56.5)	(60.6)
Effect of exchange rate changes on cash and cash equivalents	1.5	(7.4)
	<hr/>	<hr/>
Increase in cash and cash equivalents	75.6	28.3
Cash and cash equivalents at beginning of year	170.4	150.0
	<hr/>	<hr/>
Cash and cash equivalents at end of period	\$ 246.0	\$ 178.3
	<hr/>	<hr/>
Supplemental cash flow disclosures:		
Cash paid for interest	\$ (15.0)	\$ (17.6)
Net cash refunded (paid) for income taxes	(35.7)	3.9

See notes to Consolidated Financial Statements

SNAP-ON INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Consolidated Financial Statements

These financial statements should be read in conjunction with, and have been prepared in conformity with, the accounting principles reflected in the consolidated financial statements and related notes included in Snap-on Incorporated's ("Snap-on" or "the company") 2005 Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

The consolidated financial statements include the accounts of Snap-on, its majority-owned subsidiaries and Snap-on Credit LLC ("SOC"), a 50%-owned joint venture with The CIT Group, Inc. ("CIT"). The consolidated financial statements do not include the accounts of the company's independent franchisees. All significant intercompany accounts and transactions have been eliminated. Certain prior-year amounts have been reclassified on the Consolidated Statements of Earnings to conform to the current-year presentation.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary to a fair statement of